

Transition Strategy for E-rate

- Defining the problem
- Recognizing the solution
- Developing a transition strategy

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Two Sides to E-rate

- Government at its best
 - Assistance to the public for important public policy objectives
- Government at its worst
 - Bureaucratic over-regulation on top of over-regulation
 - Stifles the very innovation that the program is designed to foster

Q: What is the fundamental flaw?

- A: Unlimited free money to those at the front of the line
- Impact:
 - Most applicants are limited in the technology choices they are able to make
 - Virtually every E-rate question to the FCC cannot be answered on its own merits, but instead based on “what’s the impact on the funding cap?”

Forest and Trees

- FCC has lost focus, concentrating on the institutionalized details rather than the original policy objectives
- Potential partial solutions
 - More money
 - Improved regulatory incentive structure
 - Requiring applicants to have more skin in the game
 - Per-site funding limits

A Full Solution

- Recognize that regulation on top of regulation is not the best public policy objective
- Create an appropriate incentive structure
- Return to important “core concepts” that were wisely established in 1997
- Must include a transition strategy for getting to an improved E-rate

FCC Core Concepts

- Competitive and technological neutrality
 - No longer in place due to funding cap pressure
 - No longer in place due to inability for most applicants to obtain Priority Two funding
- Applicant choice
 - “This program provides schools and libraries with the maximum flexibility to purchase the package of services they believe will meet their communications needs most effectively.”
(Paragraph 29 of 1997 Order)

Example: Eligible Services List

- Originally: FCC outlined the concepts for eligibility, e.g., Internal Connections would be funded if the technology is “an essential element in the transmission of information within the school or library.”
- Today: Only eligible if it is specifically indicated as eligible in the ESL.
 - No room for new and important innovations

Impact of Today's ESL

- Ineligible
 - caching servers
 - anti-virus
 - directory advertising
 - separate intercoms
 - surge protectors
- Eligible
 - terminal servers
 - proxy servers
 - custom calling services
 - Intercoms in PBX's
 - battery backups
- Priority One bias: Much can be funded as a part of a P1 service that cannot be funded as Priority 2.

What is the best way to proceed?

- More regulation and complexity?
- Changes around the edges?
- **Fundamental return to core principles**
 - Technological neutrality
 - Applicant choice
 - Eligibility limits that are less specific to allow innovation and applicant flexibility
 - Proper incentive structure will foster good solutions for specific circumstances

Benefits

- Provides a simplified structure
- Understandable and efficient
- Maintains a vision of the actual public policy objectives
- Does not infringe on legitimate applicant choices

What is the downside of simplicity?

- Impediments:
 - The right formula for a per-location limit may be difficult to develop
 - Those invested in the current structure may have objections
- That task will be difficult, but worth it.

Potential Transition Strategy

- “E-rate Fast Track”
 - In exchange for per-location limits, applicants would be provided:
 - Increased flexibility
 - Faster funding decisions
 - Less bureaucracy
 - The existing system would operate side-by-side with the new system to ease transition
 - Allows evaluation and flexibility going forward

Summary

- Much was done right in creation of E-rate in 1997:
 - Applicant choice
 - Technical neutrality
 - Product and service eligibility based on broadly-stated limits.

Summary, p. 2

- One incorrect assumption– that \$2.25 billion would be sufficient– has created a system that lacks:
 - Simplicity
 - Clarity
 - Efficiency
 - Sunshine
 - Program Integrity
- The key to allow a return to core principles is a carefully developed per-location funding limit.